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## Letter Ruling 79-31: Unit Investment Trust

September 12, 1979

This is in reply to your letter of August 13, 1979 requesting rulings with respect to the Massachusetts income tax consequences of a \*\*\*\*\* Bond Trust, Series One ("the Trust") now being organized by your client, \*\*\*\*\* a New York corporation (the "Sponsor").

The Trust will be a unit investment trust created under the laws of the Commonwealth of Massachusetts. The Trustee will be the \*\*\*\*\* Bank organized and existing under the laws of the United States with its principal office in Boston, Massachusetts.

The Trust will be organized to hold bonds, the interest on which is exempt from federal personal income taxes. The Trust will invest in interest bearing state, municipal and public authority bonds.

The bonds or contracts for the purchase of bonds will be transferred to the Trustee by the Sponsor in return for all issuable Units of the Trust. The Sponsor will then sell these units for its own account to investors, pursuant to a public offering under the Securities Act of 1933, as amended. In the initial public offering, less than 10% of the Units of the Trust will be sold to Massachusetts residents.

Certificates evidencing ownership of Units will be retained by the Trustee on deposit for the Unit Owner's account and will not be issued unless the Sponsor receives a written request from a purchaser to have certificates issued. Certificates are transferable by presentation and surrender to the Trustee if properly endorsed, or if accompanied by a written instrument of transfer.

Interest and principal from the Trust, less expenses and funds required for the redemption of Units, will be distributed in monthly or semi-annual installments on a pro rata basis to Unit Owners of record.

Except in the limited circumstances stated below, the Sponsor may not alter the portfolio of the Trust by the purchase, sale or substitution of bonds. The Sponsor may direct the Trustee to dispose of bonds upon default in payment of principal or interest, the institution of legal proceedings or other impediments to the payment of principal or interest on the bonds. The proceeds from such sales will be credited to the principal account for distribution to the Unit Owners.

The Trustee will perform custodial, transfer and disbursement agency, record keeping and reporting duties for the Trust. The Trustee will have little discretion in the performance of its duties. In the

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event of default by a bond obligor, the Trustee must act as directed by the Sponsor. If the Sponsor fails to instruct the Trustee within 30 days after notification of default, the Trustee must sell the defaulted bonds. The Trustee may sell bonds designated by the Sponsor for the purpose of redeeming Units tendered for redemption and for the payment of expenses.

The Trust Agreement may be amended by the Trustee and the Sponsor without the consent of Unit Owners only to cure an ambiguity or a defective or inconsistent statement, to change a provision as required by the Securities and Exchange Commission or State Blue Sky Laws or to make such other provisions as will not adversely affect the interests of the Unit Owners. The Agreement provides that the Trust will terminate on the date of maturity, redemption, sale or other disposition of the last of the bonds held in trust but in no event later than 20 years after the death of the last survivor of six measuring lives. If the value of the Trust falls below a specified minimum amount, the Trustee may, in its discretion, and must, when so directed by the Sponsor, terminate the Trust. The Trust may be terminated at any time with the consent of the owners of 66 2/3% of the Units then outstanding. In no event will the Trust continue beyond the specified mandatory termination date.

In the opinion of counsel for the Sponsor, the Trust is not an association taxable as a corporation for federal income tax purposes, and income received by the Trust that consists of interest which may be excluded from gross income under the Code will be excluded from the gross income of the Owners of Units of the Trust.

Based on the foregoing, it is ruled:

1. The Trust will be a "corporate trust" as defined in General Laws Chapter 62, Section 1(j), taxable in accordance with Section 8 thereof. It will not be treated as a grantor trust under General Laws Chapter 62, Section 10(e).

2. The adjusted gross income of the Trust will be apportioned to Massachusetts in proportion to the percentage of all sales of Units in the initial underwriting which are sold to Massachusetts residents, pursuant to General Laws Chapter 62, Section 8(a), and Chapter 63, Sections 38 and 42. If the aforesaid percentage of sales is less than 10%, then under Chapter 62, Section 8(b)(iii), the tax imposed by Section 8(a) shall not apply to the Trust.

3. While the Trust is not subject to taxation by reason of the ruling in Paragraph 2, dividends paid on Units of the Trust out of its earnings and profits shall not be exempt from taxation under General Laws Chapter 62.

Very truly yours,

/s/L. Joyce Hampers

L. Joyce Hampers  
Commissioner of Revenue

LJH:RSF:FC

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